

Public Sector Pension Plans in Japan

- Changes in Plan Design, Financing
and Investment Policies -

Takayuki Igawa
F.I.A.J., Certified Pension Actuary of Japan

Introduction

1. System of Japanese public sector pension plans
2. What happened to these plans?
3. 2 Examples
4. Consideration and Conclusion

Categories of the Japanese public sector pension plans

I define here the Japanese public sector pension plans as the below two categories:

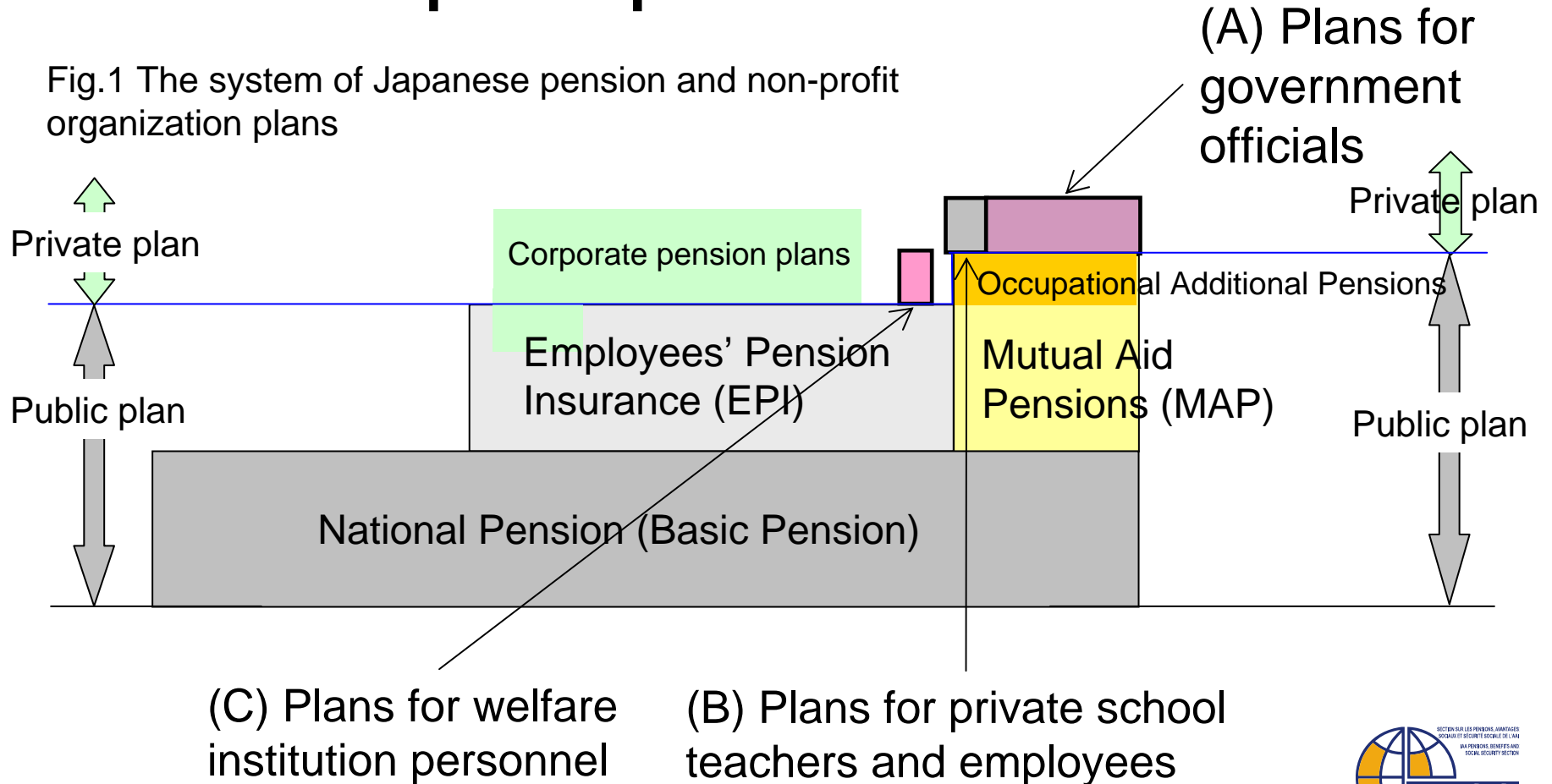
1. Non-profit organizations' pension plans related to the public plans
2. Occupational Additional Pension (OAP) which Mutual Aid Pensions (government officials' pension fund and private school teachers' pension fund) provide as public plans

Non-profit organizations' pension plans

1. Some of them are related to the public plans and here I treat them as one category of the public sector plans.
2. These plans were NOT regulated by the law.
3. Various types of plans, various funding method and investment policies

3 representative non-profit organization plans related to the public plans

Fig.1 The system of Japanese pension and non-profit organization plans

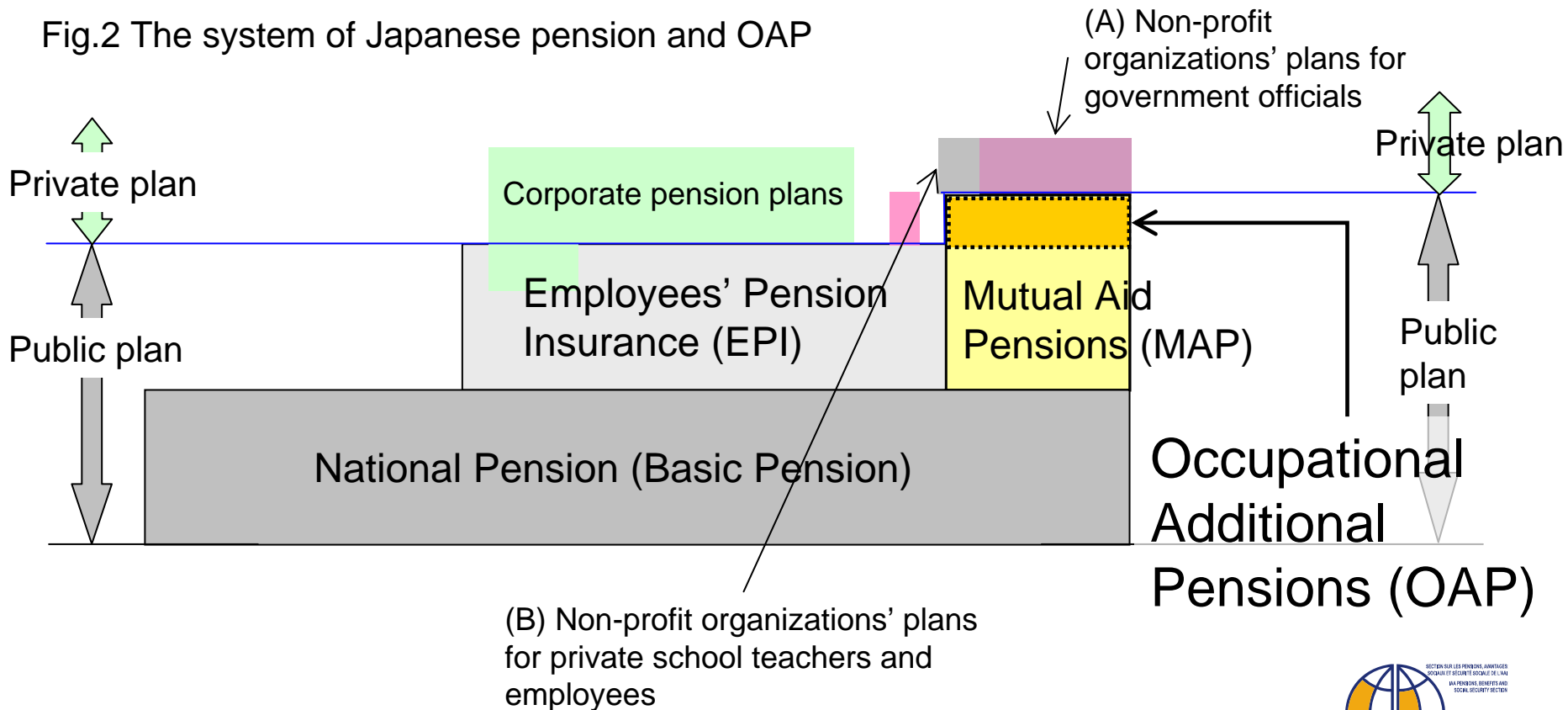


Occupational Additional Pension (OAP)

1. There are 3 Mutual Aid Pensions (MAP) and 2 MAP are for national and local government officials and 1 MAP is for private school teachers and employees.
2. In 1985, the difference in benefit between Employees' pension insurance (EPI) and MAP was arranged as the Occupational Additional Pension (OAP).
3. The OAP is treated as a public plan incorporated within MAP.
4. A partial funding method is adopted.

OAP for government officials and private school teachers and employees

Fig.2 The system of Japanese pension and OAP



Investment policies of Government officials' pension plans

Table 1 Policy Portfolios of Public Pension Plans

	Expected Return	Domestic Bond etc.*	Domestic Equity	Foreign Equity	Foreign Bond	Cash
Employees' Pension Insurance	3.37%	67%	11%	9%	8%	5%
Mutual Aid Pension for National Government Officials	2.5%	87%	5%	5%	0%	3%
Mutual Aid Pension for Local Government Officials**	3.21%	64%	14%	11%	10%	1%
Mutual Aid Pension for Private School Teachers	2.8%	65%	10%	10%	10%	5%

Note * : Including loans, real estate

Note **: Pension fund association for local government officials

Source: Author's tabulations from each public pension's disclosure

Table 2 Average Portfolio of Corporate Pension Plans

	Domestic Bond etc.*	Domestic Equity	Foreign Equity	Foreign Bond	Hedge Fund	Cash
Employees' Pension Fund and Defined Benefit Corporate Pension	31.56%	30.81%	18.32%	11.67%	4.18%	3.47%

Note * : Including general account of insurance company, loans, real estate and convertible bond etc.

Source: Author's tabulations from the investigation of the investment results in FY2005 by Pension Fund Association

Public pension plans adopt lower risk portfolios than corporate pension plans.

The revision of the insurance law

1. In April 2006, the new insurance law was enforced and the definition of the insurance business was changed.
2. Consequently, some non-profit organization plans became to be regulated by the insurance law.

Public corporation reform

1. Public corporation means a corporate juridical person or foundation. It is one of the representative non-profit organizations. Many public corporations provide mutual aid pension plans related to the public plans.
2. The new accounting standard for public corporations was introduced in April 2006.
3. The new law of the new public corporation was approved in the Diet in May 2006 as a revision, following almost a century-long lapse.
4. The tax law will be revised in 2007-2008.

Occupational Additional Pension (OAP) reform

1. The OAP will probably be abolished and a new system will probably be established in 2010.
2. The kind of plans (DC, Hybrid plans etc.) to be introduced as a new system remain undecided.

Examples of non-profit organization plans

1. 2 examples for considering on what the public sector plans should be and the regulation should be
2. There is no official data about non-profit organization plans because of no regulation, but some types of plans can be found in them.

Example 2 Prescribed benefit types

1. The benefit amount is prescribed in advance.
2. Various funding method, various expected rate of return and investment portfolio
3. Some plans have insufficient funds.

Comparison to corporate pension plans for consideration

Table 3 Comparison of non-profit organization plans to corporate pension plans

	Non-profit organization plans	Corporate pension plans
Hybrid plan	Any type is available.	Only Cash Balance type (CB) is available.
Employees' Contribution	Not regulated	Regulated
Funding Method	Not regulated	Advance funding method
Investment Risk Sharing	Possible by various types of hybrid plans	Possible by CB

Comparison to corporate pension plans for consideration

Table 4 Comparison of OAP to corporate pension plans

	Occupational Additional Pension (OAP)	Corporate pension plans
Hybrid plan	No type is available.	Only Cash Balance type (CB) is available.
Employees' Contribution	Prescribed	Regulated
Funding Method	Partial funding method	Advance funding method
Investment Risk Sharing	Impossible with hybrid plans	Possible by CB

Conclusion

1. The pension plan should be regulated by the pension law – not by the insurance law. The new pension law is necessary for Japanese government officials.
2. Arrangement of non-profit organization plans and the OAP is necessary.
3. Some kinds of hybrid plans seem to be an effective way for the financial stability and should also be introduced to corporate pension plans.

Thank you very much.